

# U.S. & Oklahoma Economic Outlook

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# Purposes and Structure of the Federal Reserve System

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- **Overall purposes of the Fed are to promote:**
  - Maximum sustainable economic growth
  - Low and stable inflation
  - National financial stability
- **Mission areas:**
  - Monetary policy – most visible role to the public, usually
  - Bank regulation – including lender of last resort
  - Payments systems – cash, checks, electronic payments
- **Monetary policy is set by the 12-member FOMC:**
  - The Federal Open Market Committee meets every 6 weeks
  - Voting members consist of:
    - the 7 Governors in Washington;
    - the New York Fed President;
    - 4 of the 11 other Fed presidents on a rotating basis

# Federal Reserve Districts and Office Locations

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# The Kansas City and Oklahoma City Offices

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- **Headquarters in Kansas City**

- Nearly **1,000 staff** involved in all mission areas
- **New building** officially opened in June 2008

- **Oklahoma City branch office**

- **Staff and functions** – 35 staff involved in economic research, bank examinations, and public and community affairs
- **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

- **Oklahoma City branch board of directors**

- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, President, RGF, Inc., Oklahoma City
- **Doug Tippens**, President and CEO, Canadian State Bank, El Reno
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville

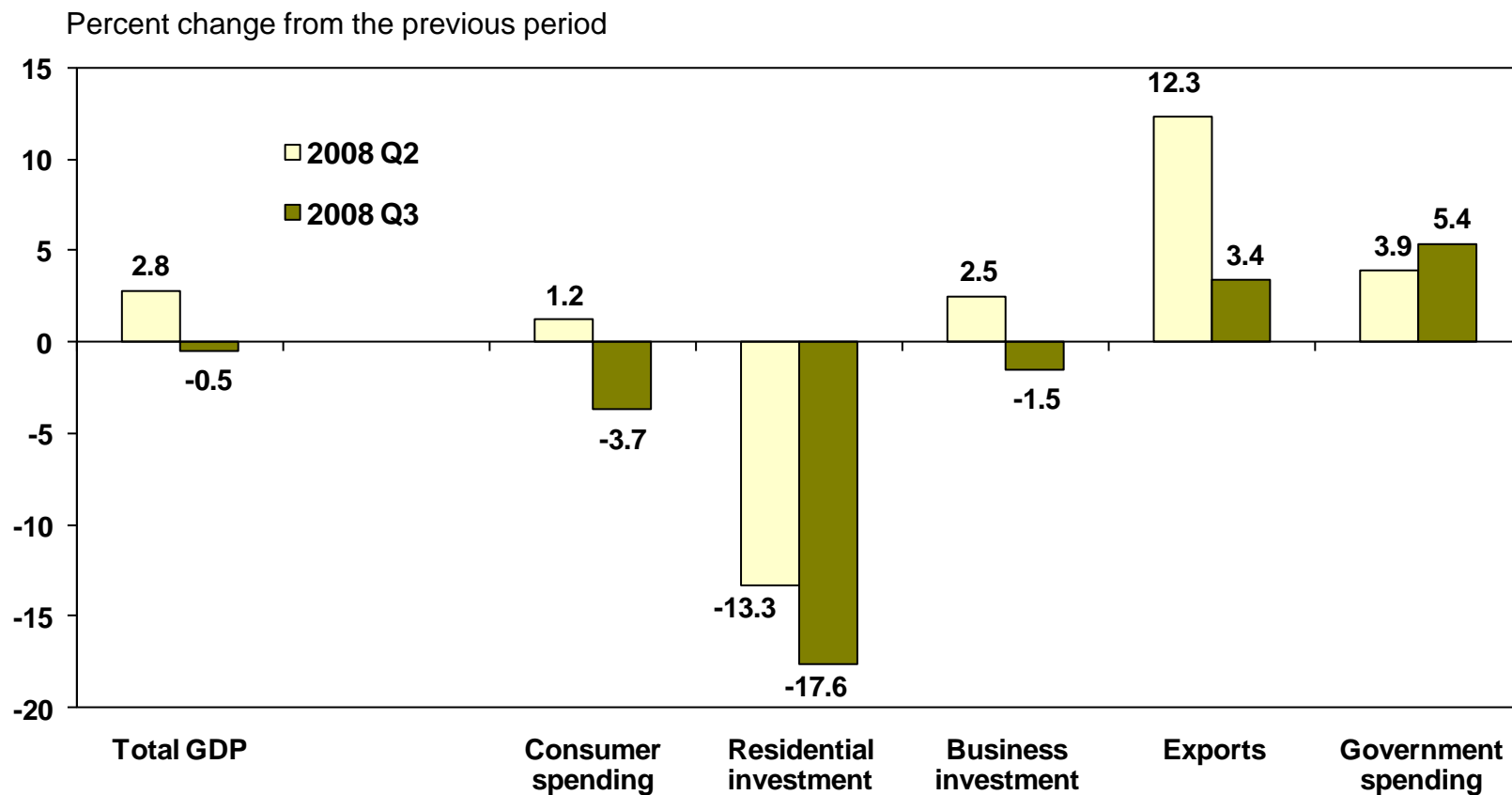
# The U.S. Economic Outlook

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- U.S. economic activity has worsened markedly in recent months, pulling down all regions
- Credit markets show signs of improving, but forecasters are calling for weak economic activity through much of 2009
- Inflation pressures have eased, driven by falling energy prices and reduced wage pressures

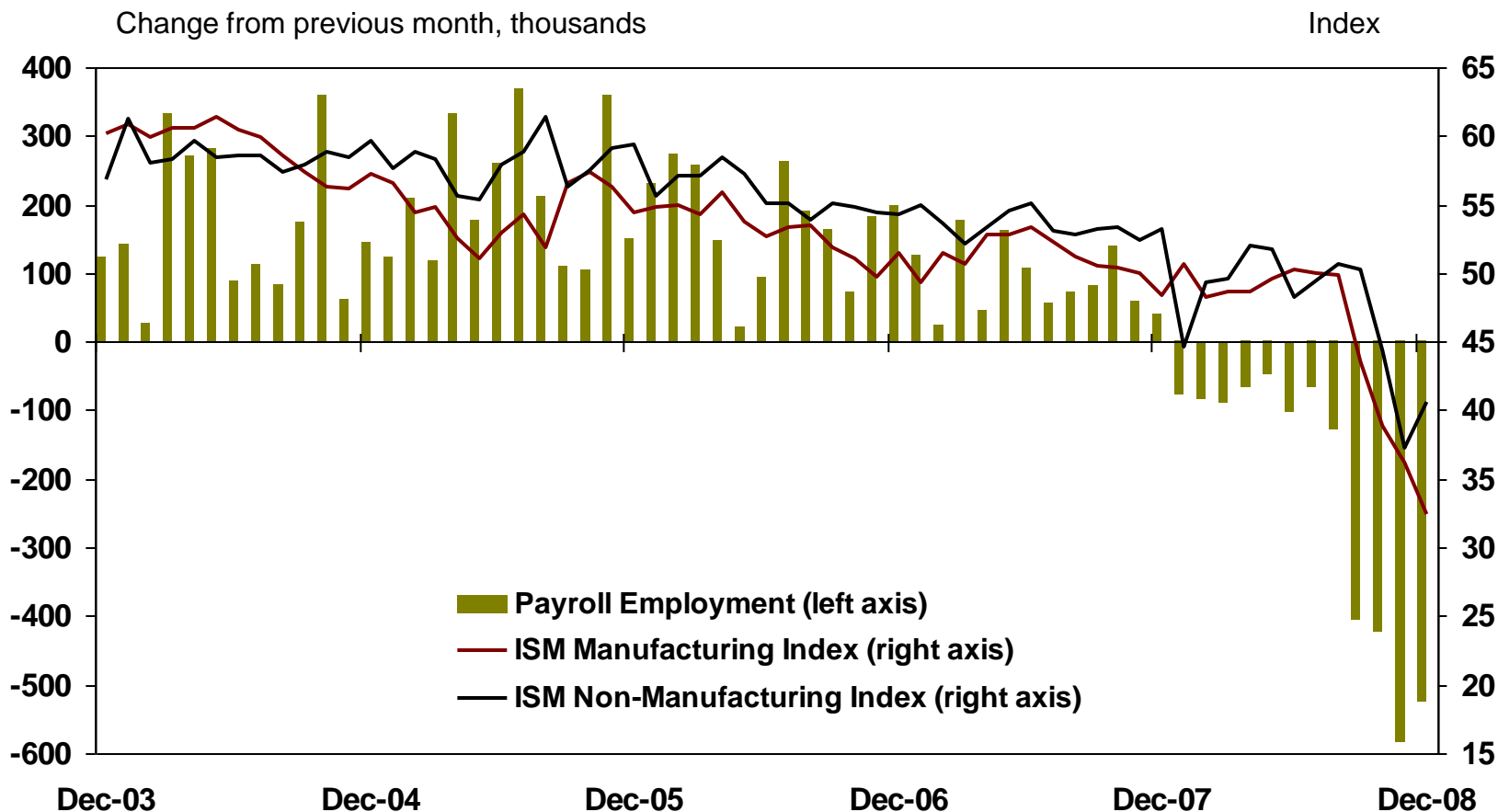
# By the third quarter of last year, only exports and government were adding to U.S. growth

## Growth in Components of GDP



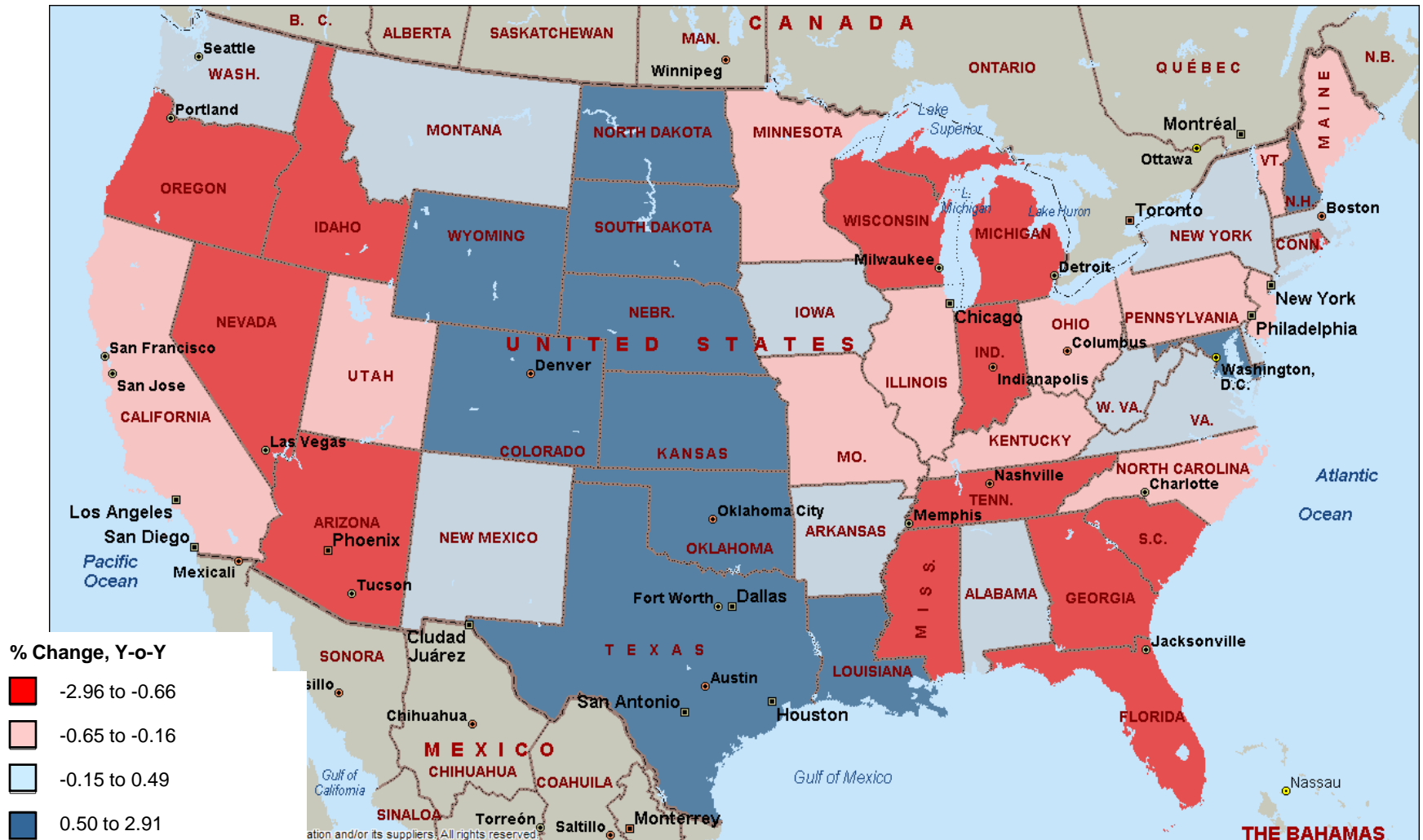
# And fourth quarter data showed a clear weakening of economic conditions

## National Business Indexes and Payroll Employment



# Growth is now slowing across the country, though conditions still vary widely

Payroll Employment Growth, November 2008

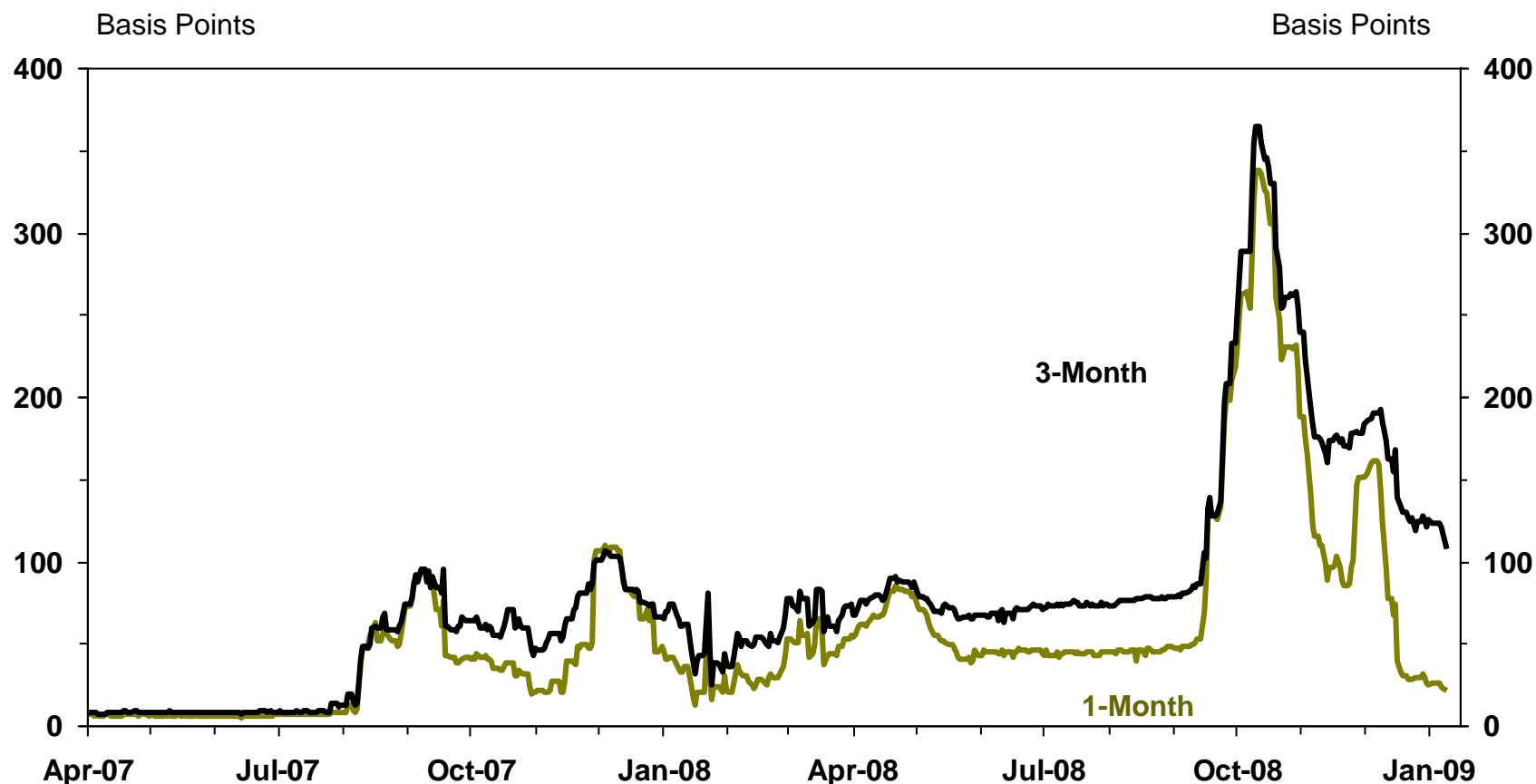


Source: Bureau of Labor Statistics



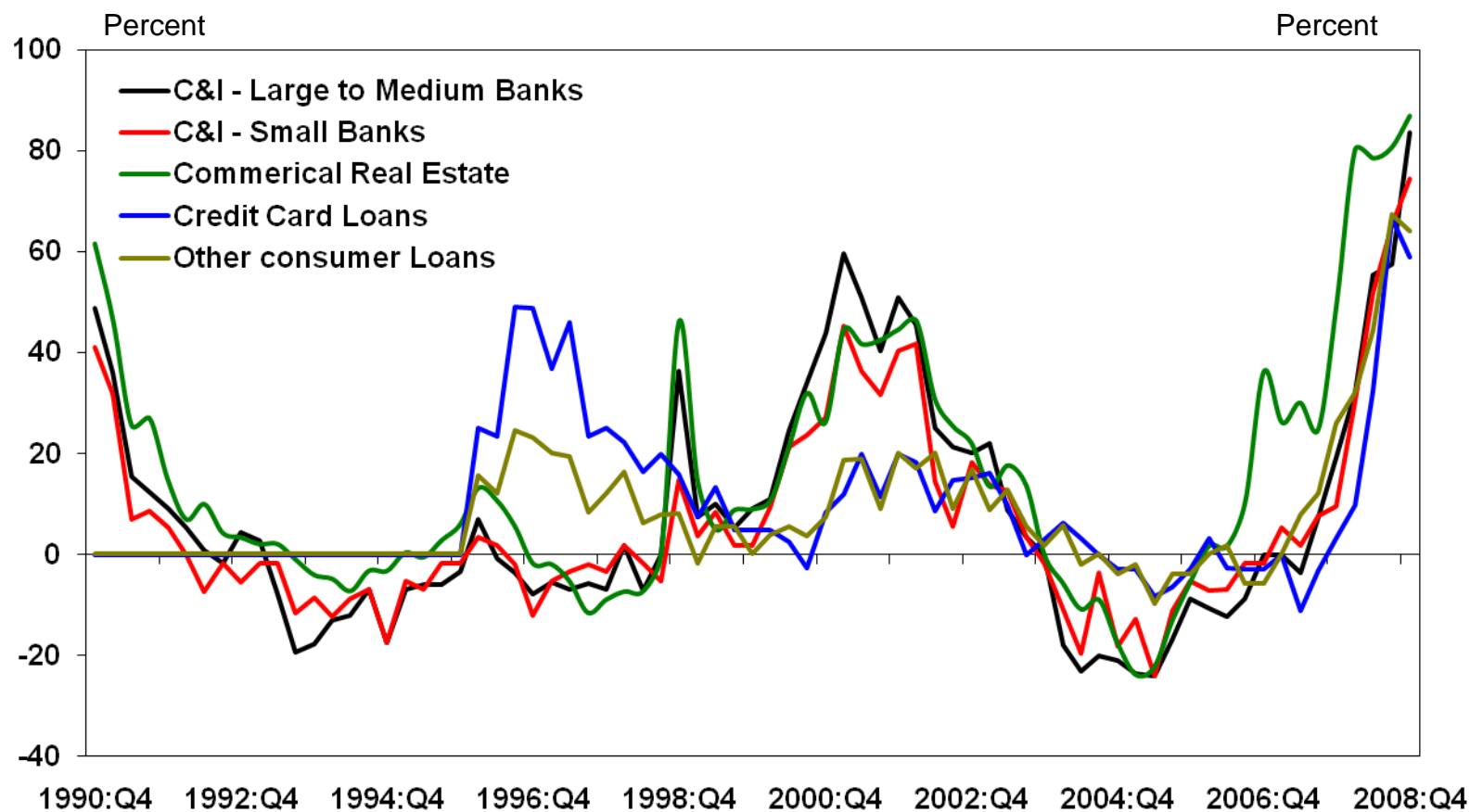
# Short-term credit conditions are finally improving after worsening dramatically in September

## LIBOR-OIS Spread



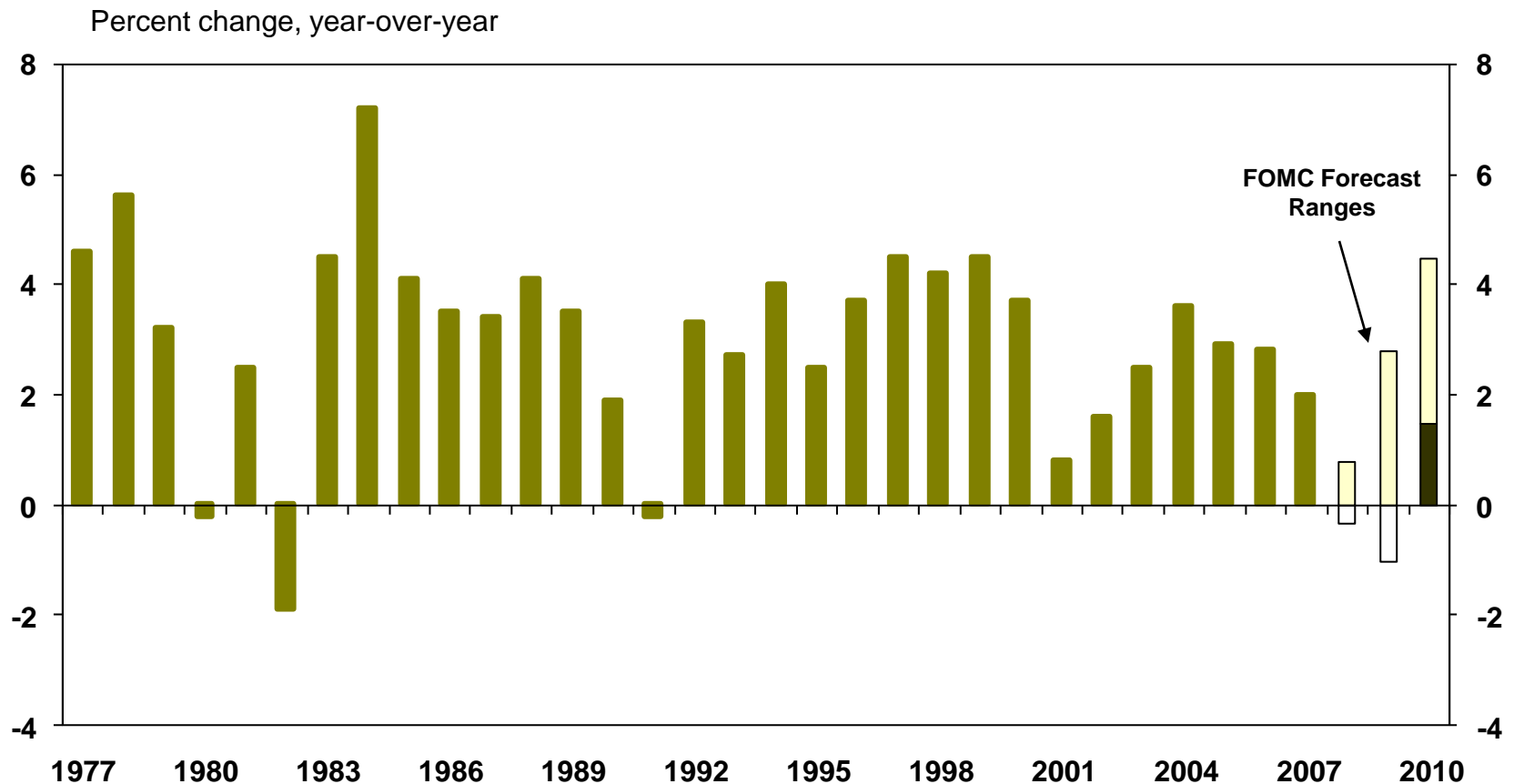
# Still, bank lending standards on business and consumer loans have tightened

## Net Percentage of Banks Tightening Loan Standards



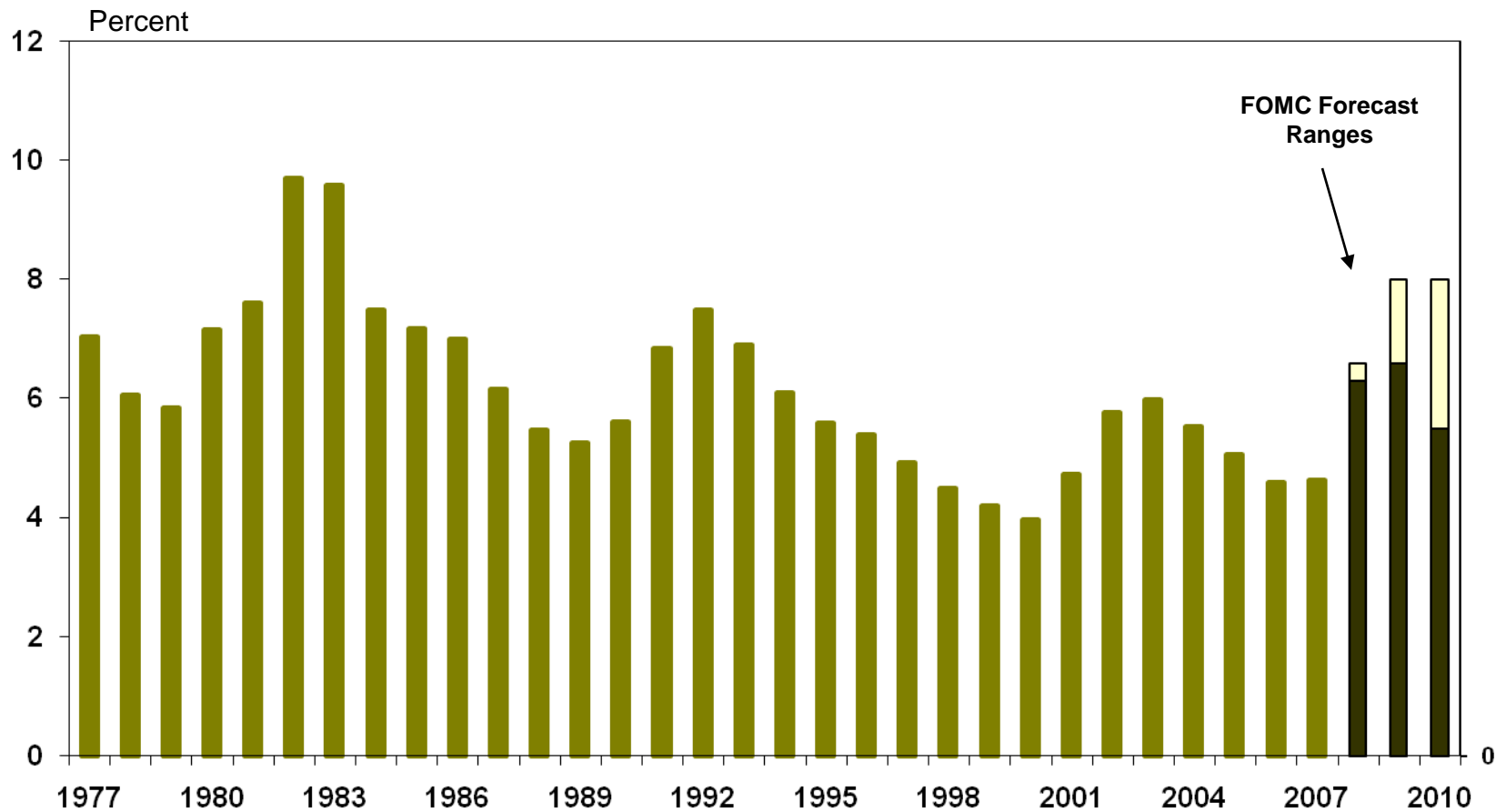
# Considerable uncertainty surrounds the near and intermediate-term economic outlook

## Gross Domestic Product



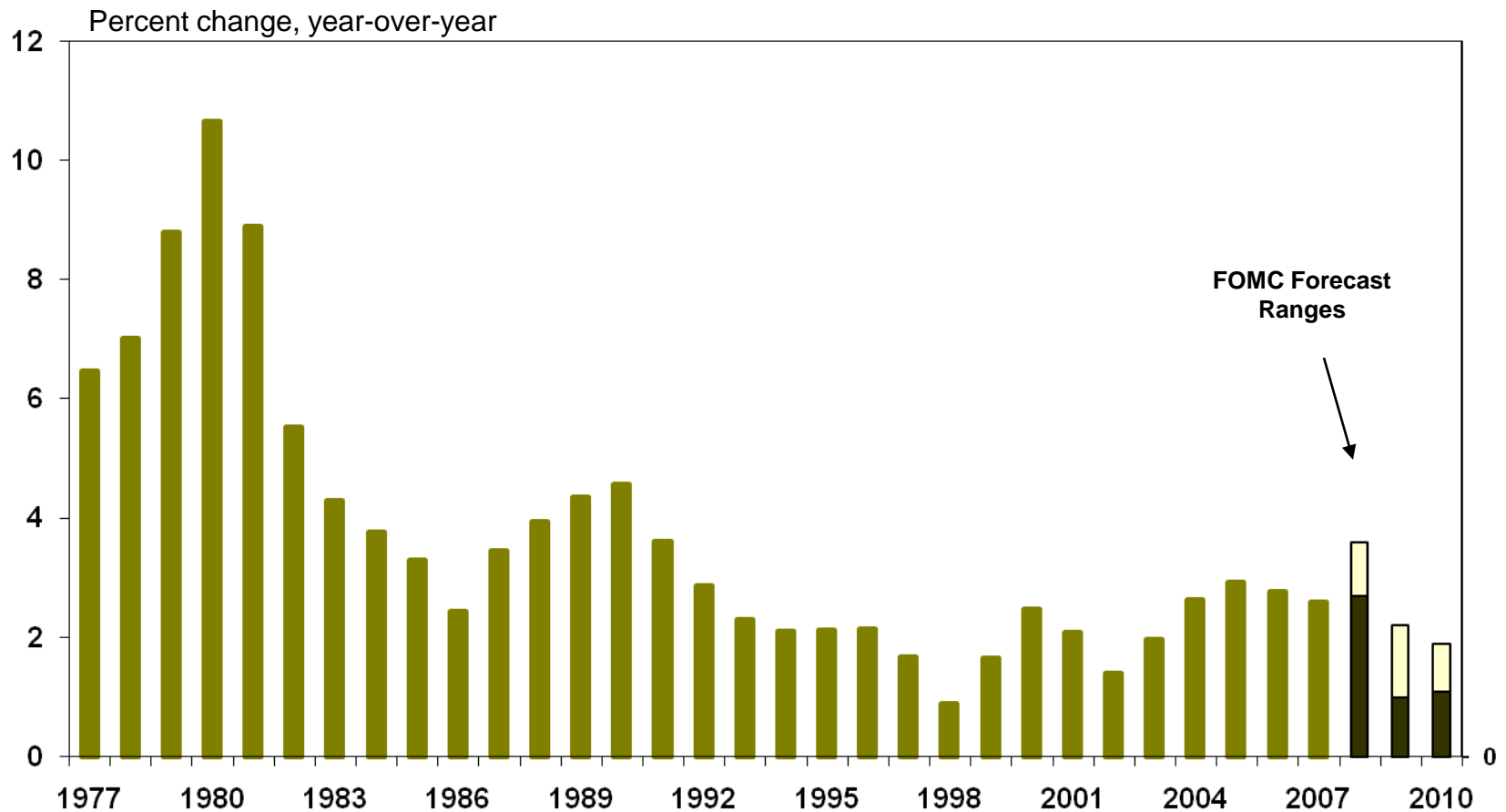
# Unemployment is expected to rise further

**Unemployment Rate**  
Seasonally Adjusted



# Meanwhile, inflation is expected to continue to ease after rising in early 2008

## PCE Inflation Index

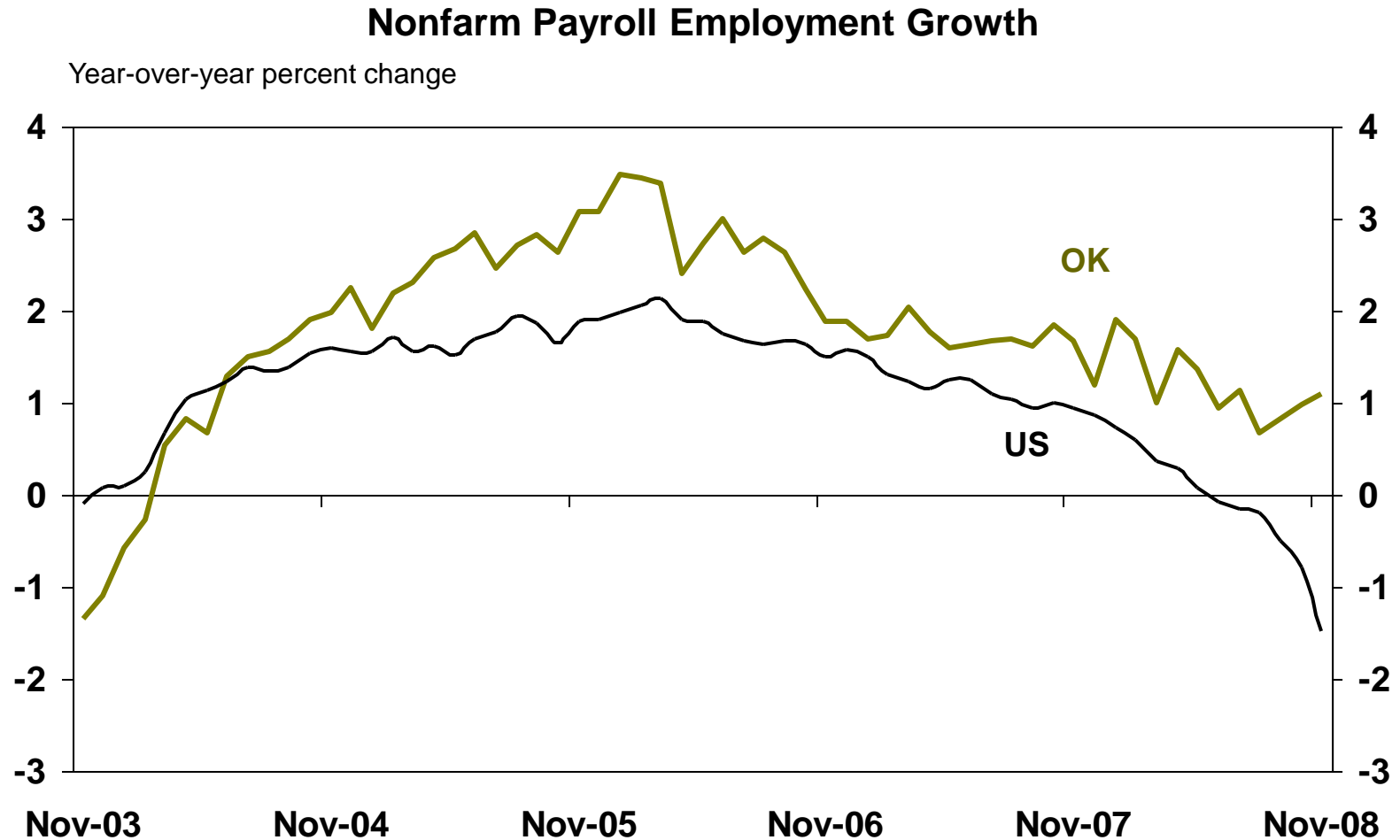


# The Oklahoma Economic Outlook

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- ❑ Oklahoma employment is now falling, though it is still outperforming the nation
- ❑ Housing activity remains fairly stable, but conditions in energy, agriculture, and manufacturing have weakened markedly
- ❑ The national situation bears watching, as do the direction of oil and gas prices

# Oklahoma job growth has continued to outpace the nation

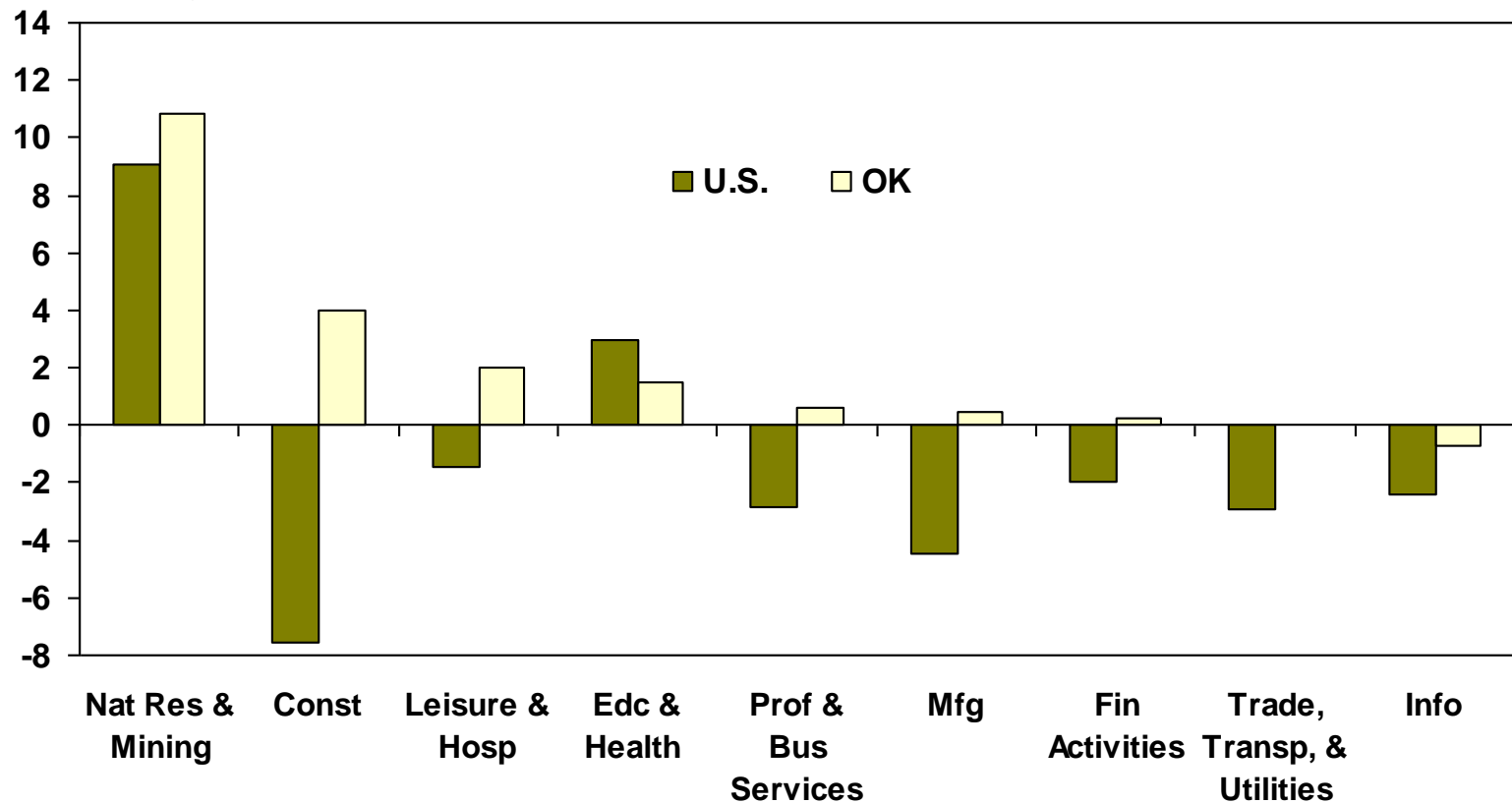


# But growth through November was minimal outside of energy and construction

## Employment Growth by Industry

November 2008

Percent change year over year

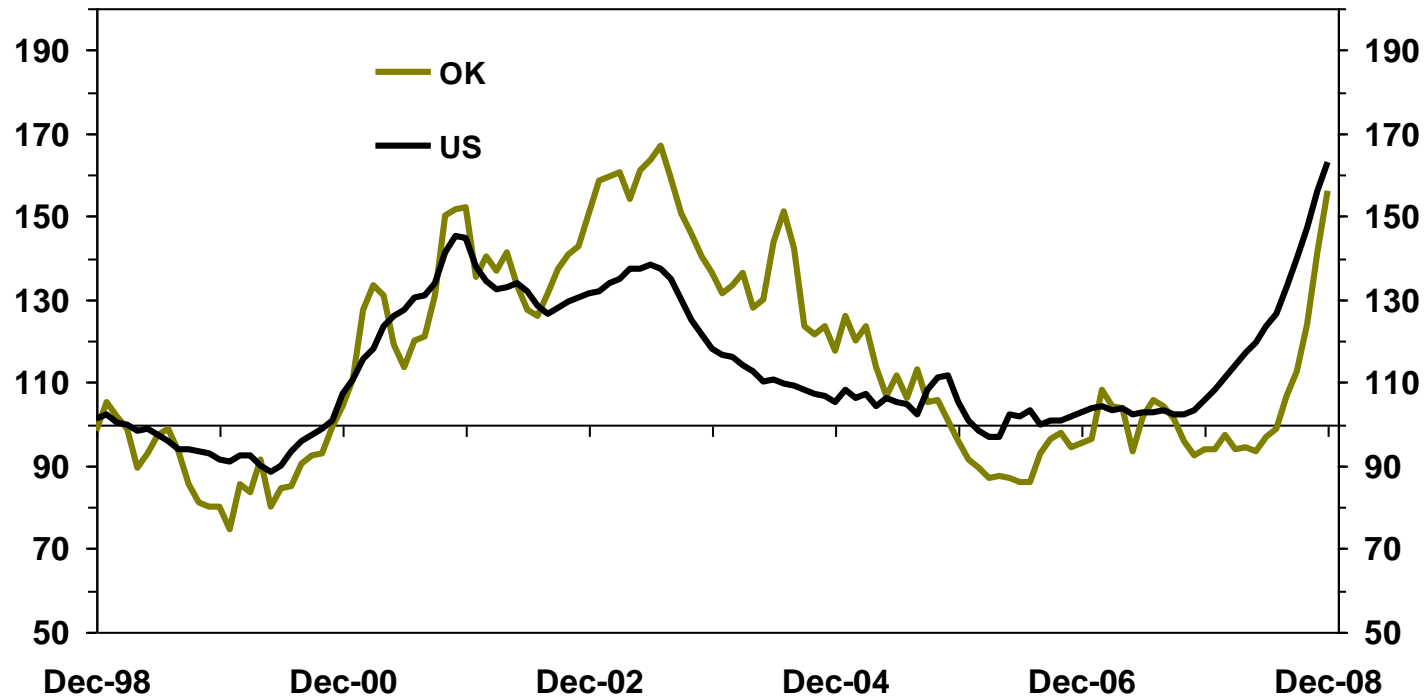




# And unemployment claims are rising rapidly, changing the picture for the state

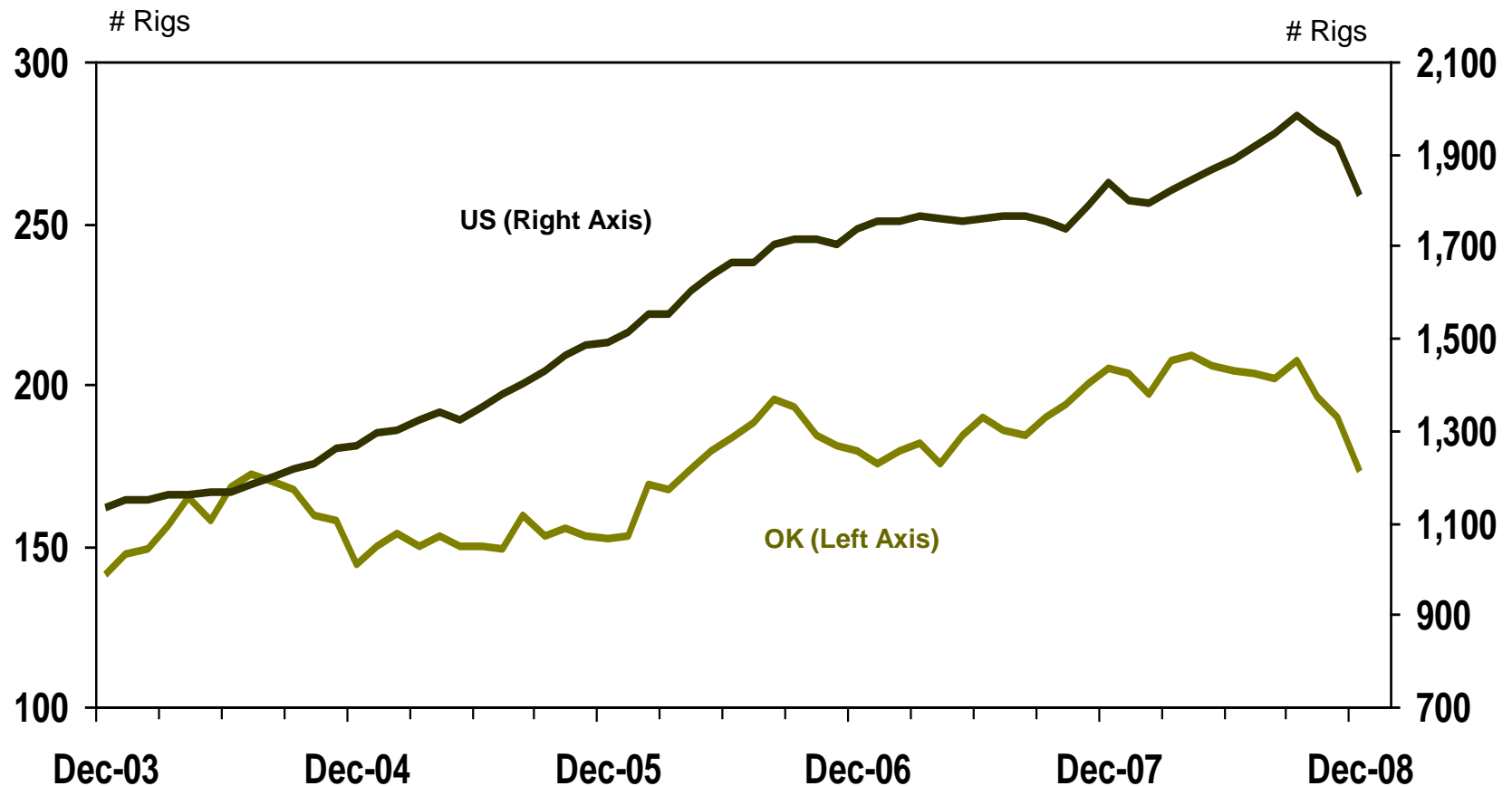
## Weekly Unemployment Insurance Claims

Index: Dec-98=100; 3-month moving average



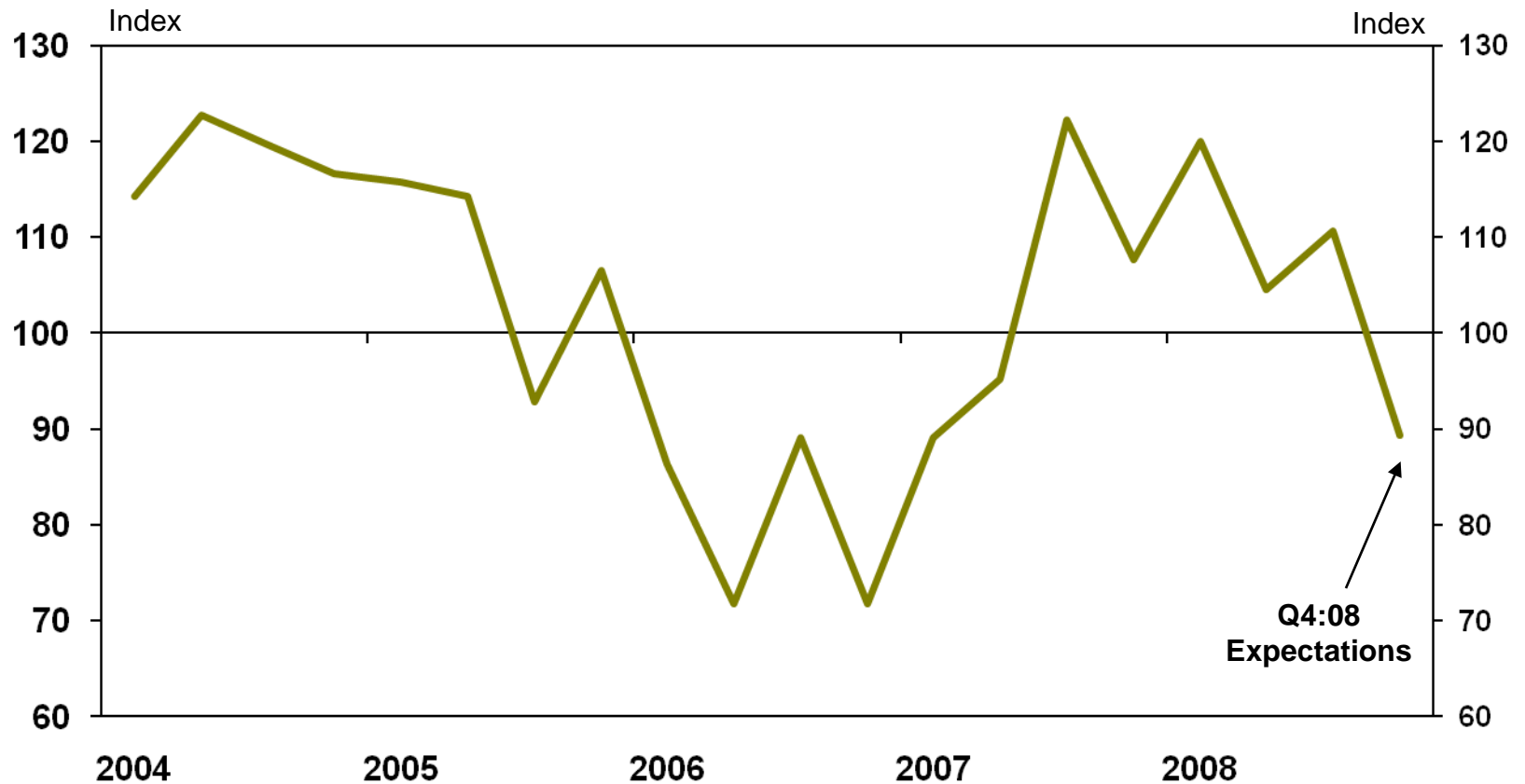
# The rig count has fallen sharply in recent months and is expected to fall further

## Count of Active Drilling Rigs

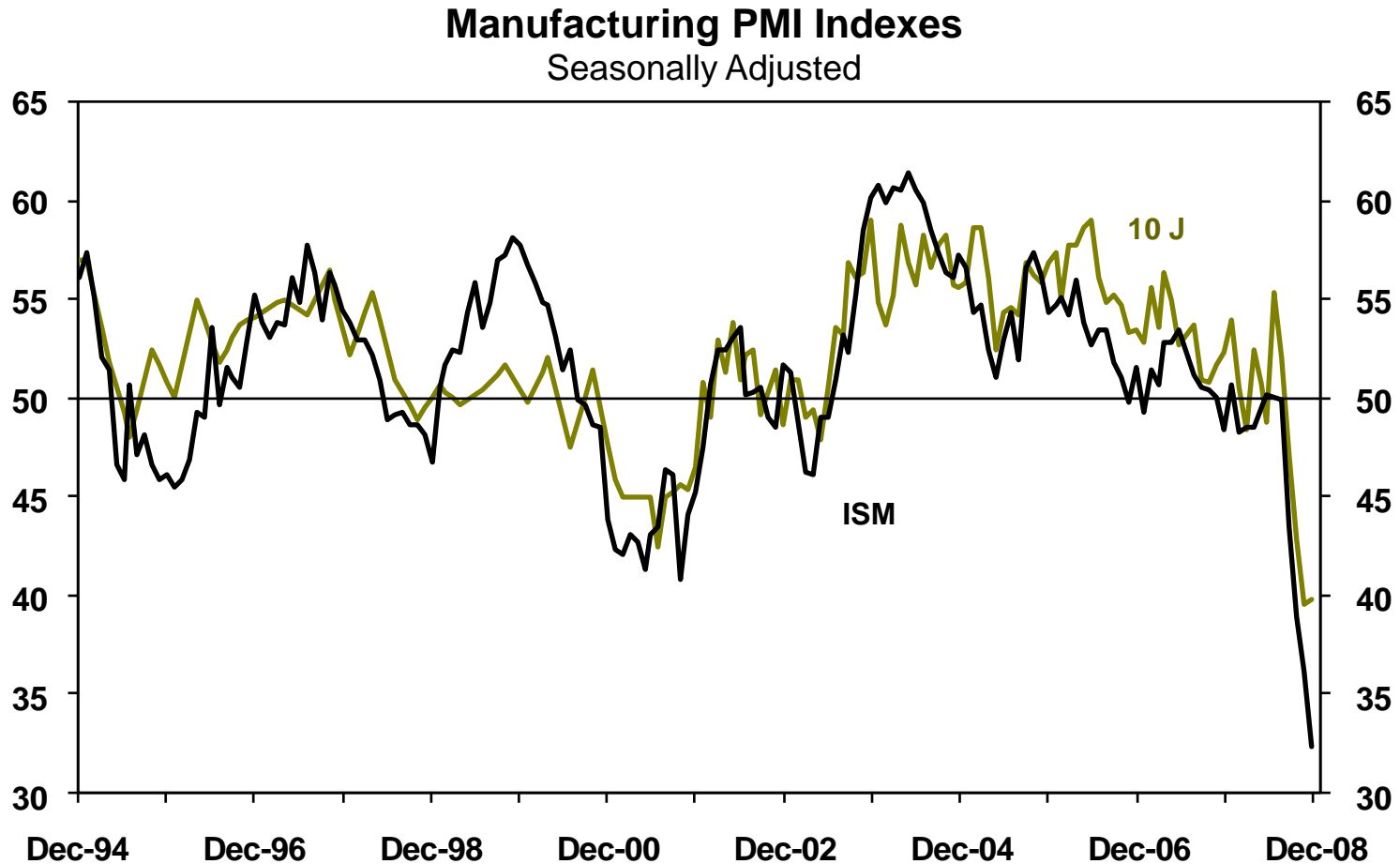


# Expectations for farm capital spending have also dropped in Oklahoma

## Oklahoma Farm Capital Spending Index



# Manufacturing activity in the region has fallen off a cliff in recent months

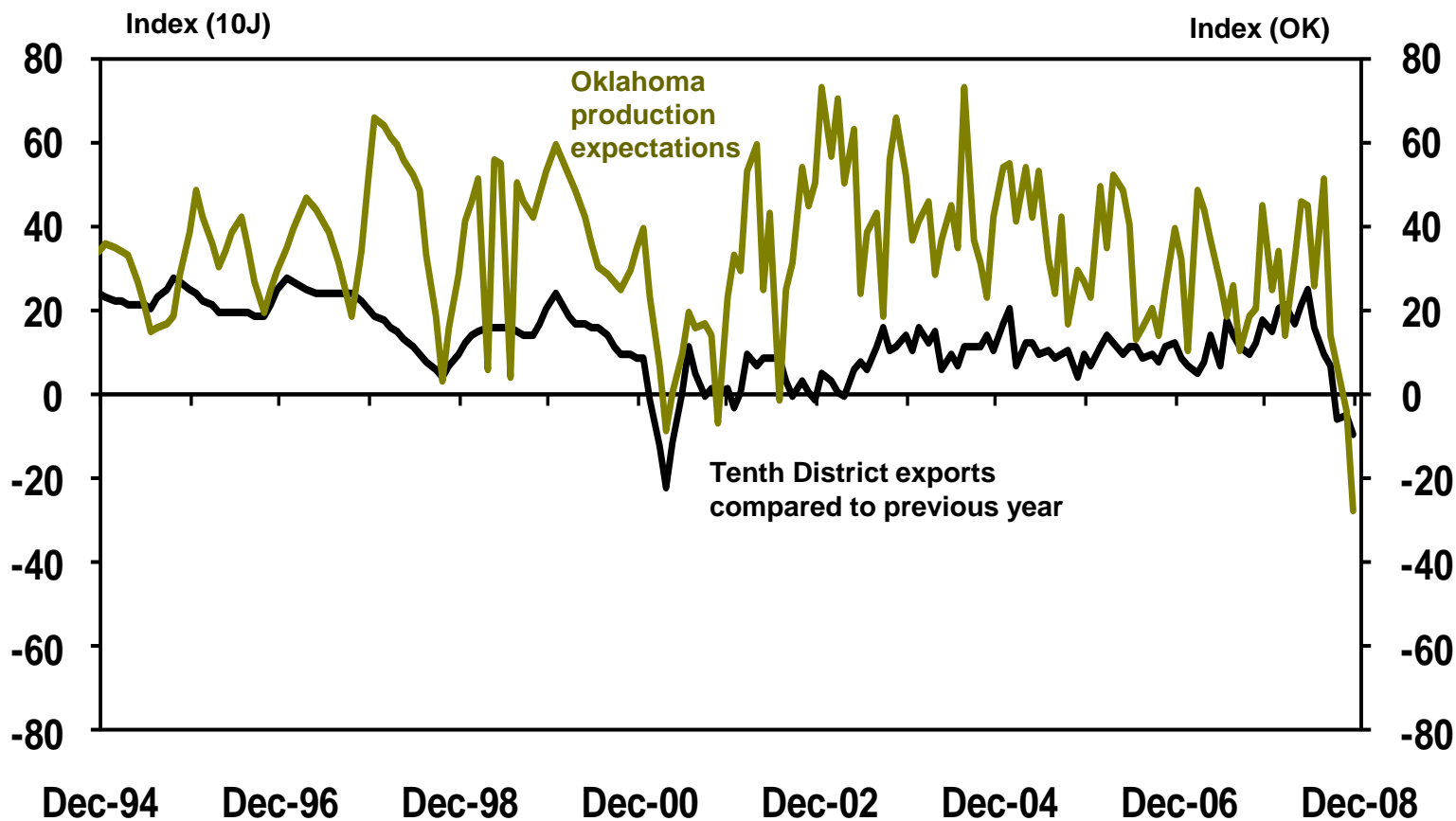


Note: 10J index is computed on ISM basis (50 = zero change)

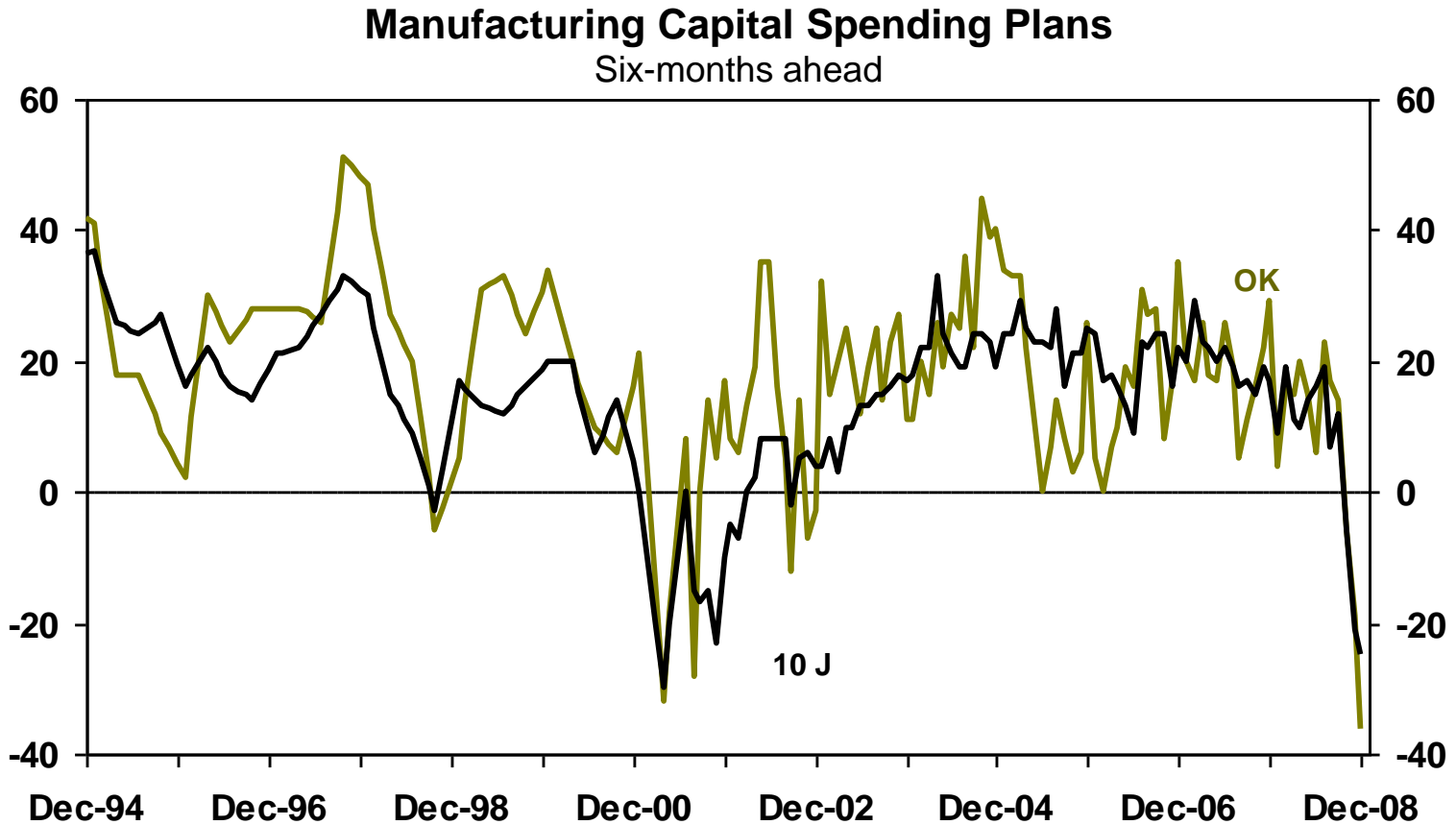
Source: ISM, FRBKC Manufacturing Survey

# Exports have dried up, and Oklahoma producers' optimism has quickly vanished

## Manufacturing Production and Exports

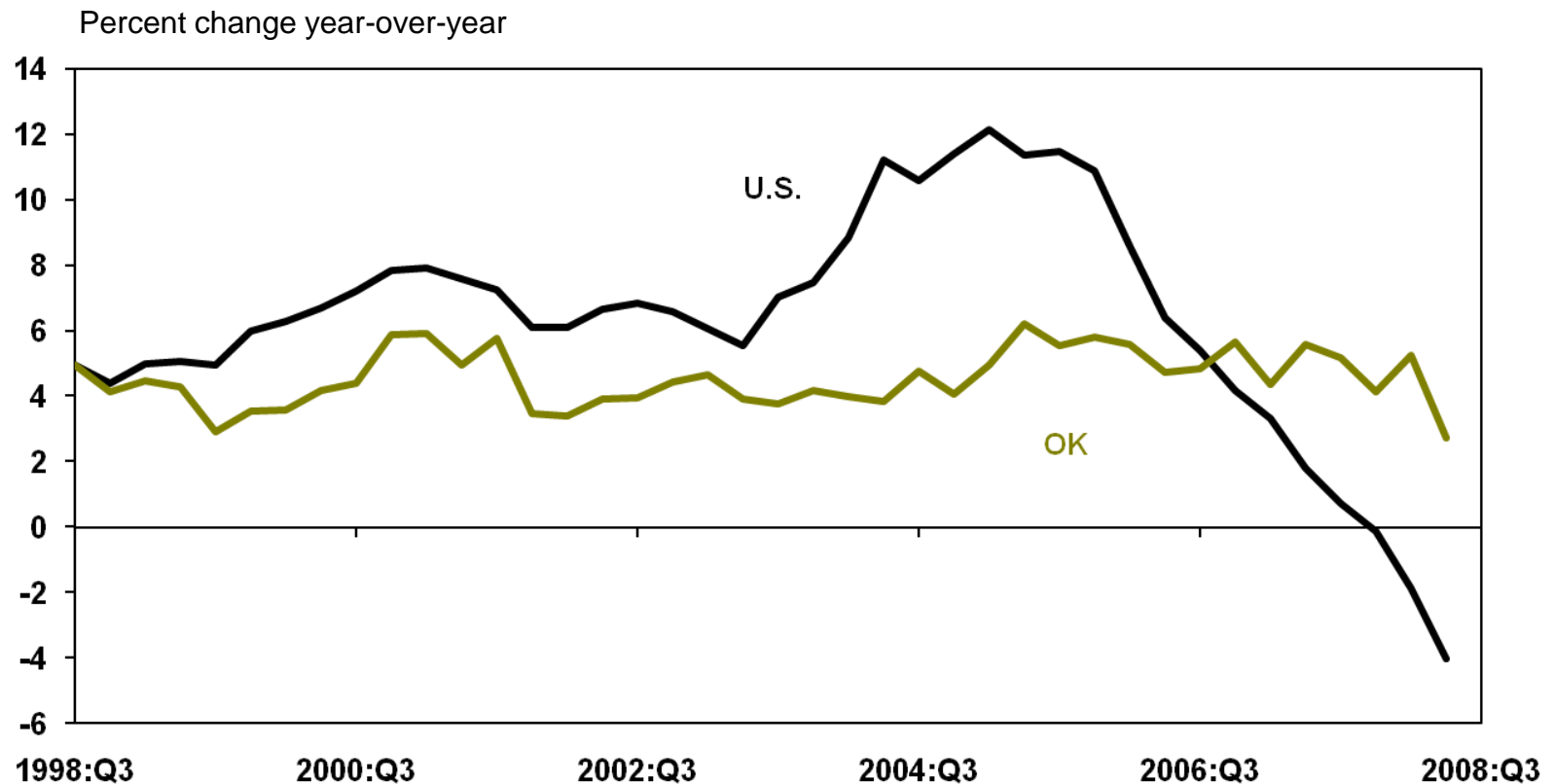


# Most factories now plan to cut 2009 capital spending, in contrast to a few months ago



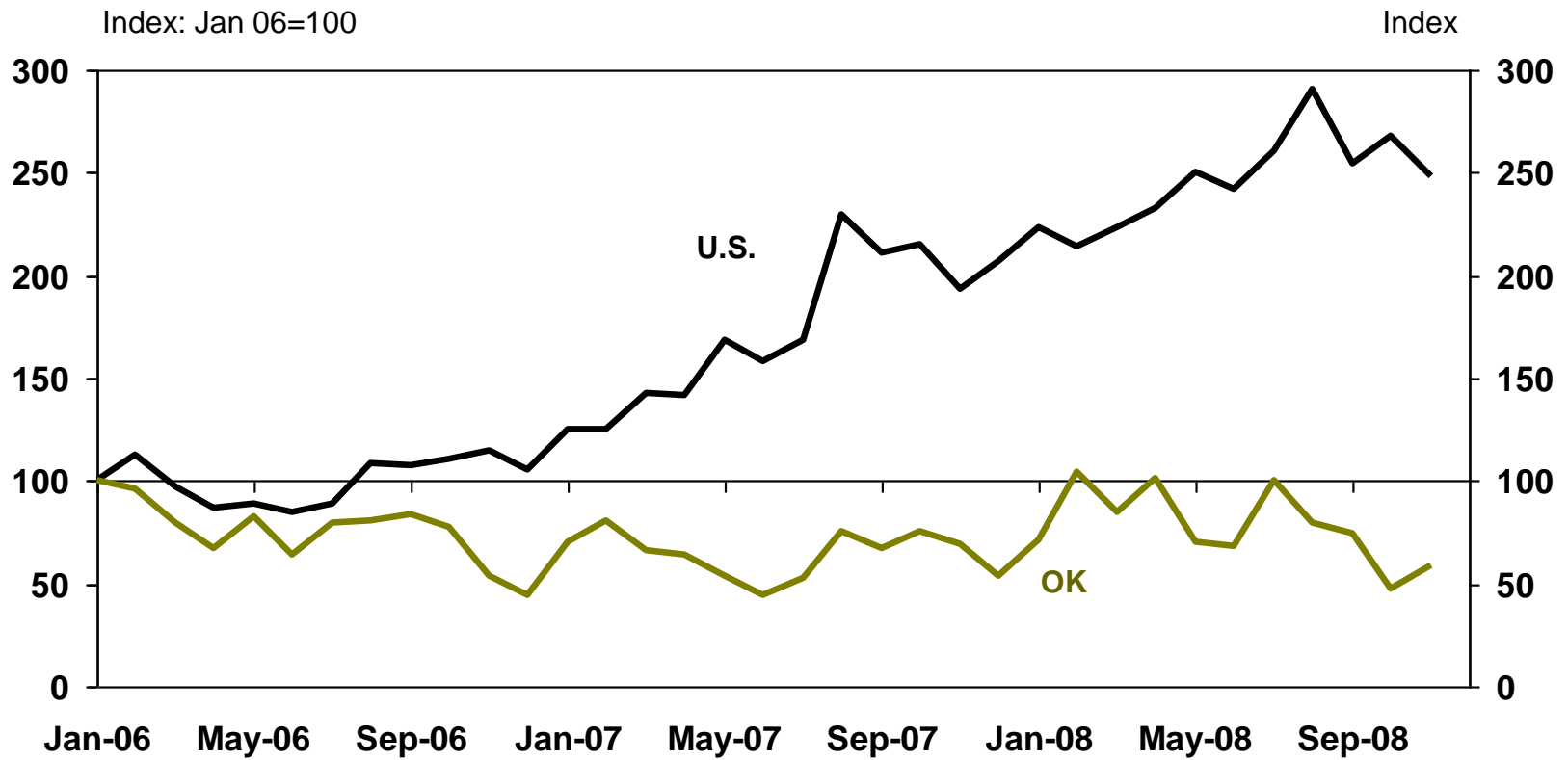
# Oklahoma home prices continued to grow through Q3 2008, even as U.S. prices fell

## Quality-Adjusted Home Price Growth



# So far, foreclosures have been relatively low in Oklahoma compared to the nation

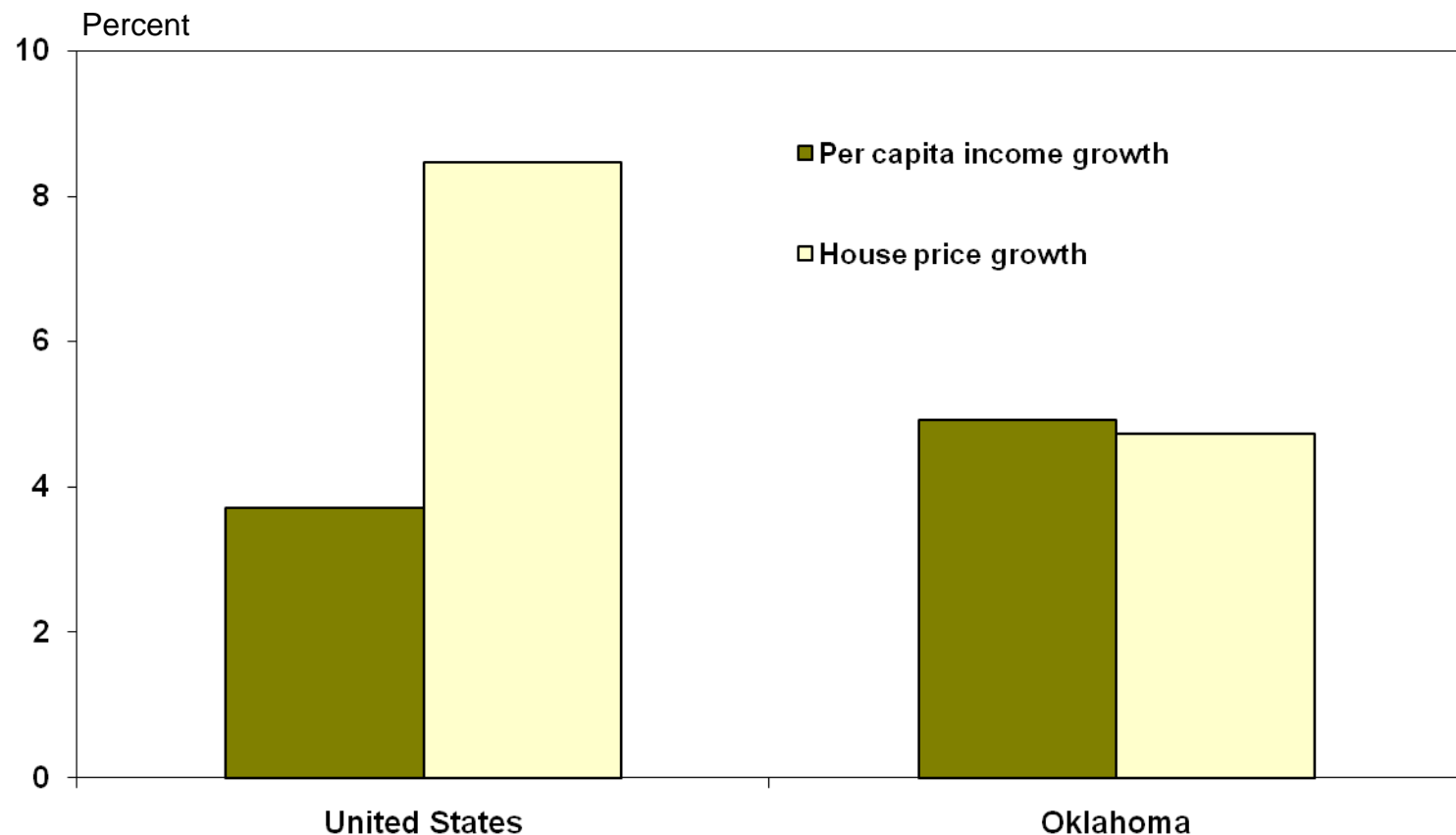
## Total Foreclosures, U.S. vs. Oklahoma





# House price fundamentals were more in line in Oklahoma from 2000 to 2005

**Annual Growth in Per Capita Incomes and Home Prices**  
2000 - 2005



# Summary

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- ❑ U.S. economic conditions have deteriorated with tightening credit, and the outlook is uncertain
- ❑ Oklahoma conditions remain better, especially in housing, but some recent high-frequency data have been worse for the state
- ❑ Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching